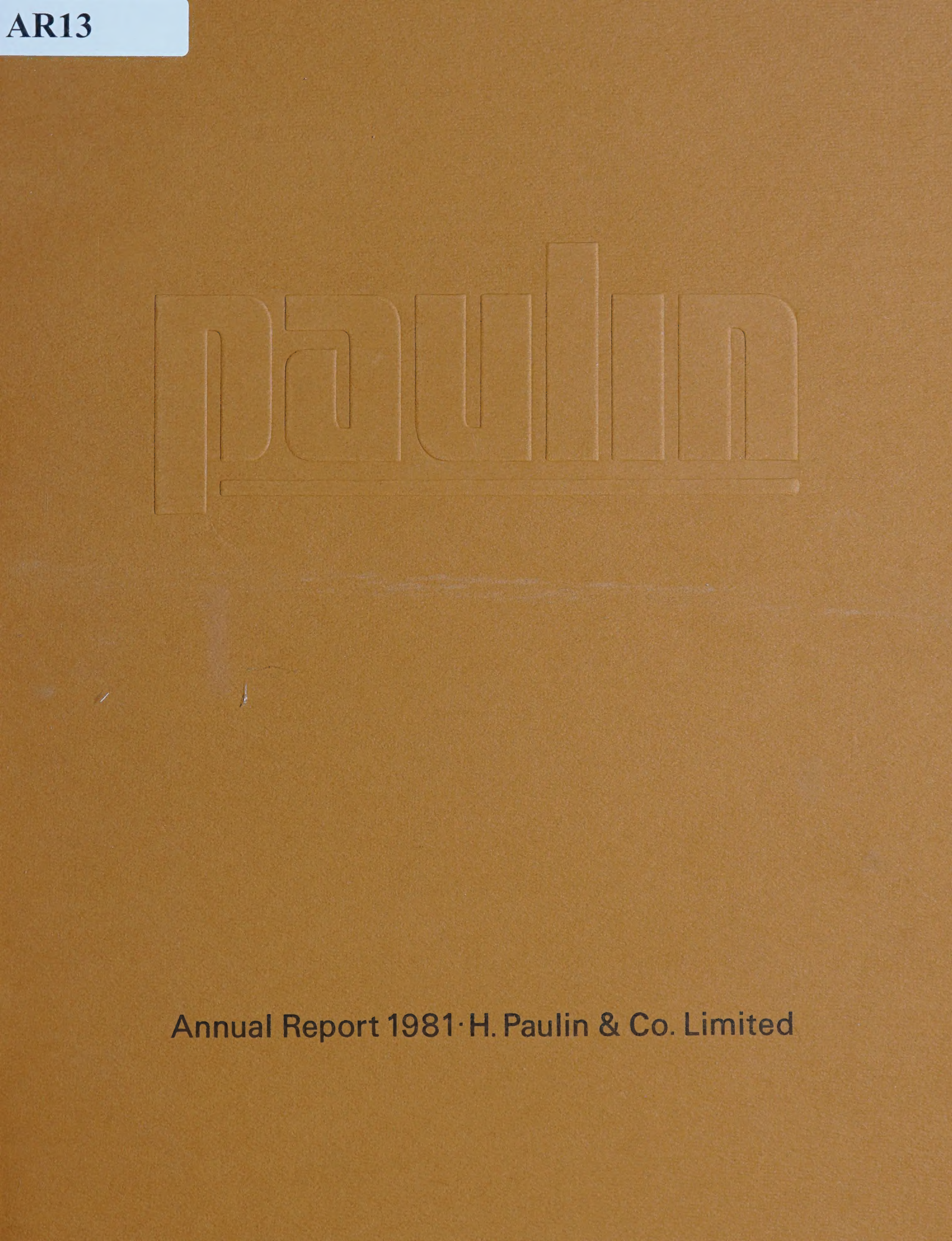




paulin

Annual Report 1981·H. Paulin & Co. Limited

DIRECTORS

- ✓ *Dr. Irving Betcherman, Toronto
- ✓ Arnold B. Irwin, Toronto
- ✓ Ayton G. Keyes, Ottawa
- *Arthur Paulin, Toronto
- ✓ Stanley F. Paulin, Toronto
- *Vincent P. Reid, Q.C., Toronto
- ✓ Harvey G. Kotler, Q.C., Toronto
- (Richard C. Paulin, Toronto)

OFFICERS

Arthur Paulin
Stanley F. Paulin
Frank Juriansz
Joyce Mair

HEAD OFFICE

AUDITORS

LEGAL COUNSEL

TRANSFER AGENT AND REGISTRAR

SHARES LISTED

Director, Betab Investments Limited
President, Irwin Toy Limited
President, Keyes Investments Limited
H. Paulin & Co. Limited
H. Paulin & Co. Limited
Vice-President, Walwyn Stodgell Cochran
Murray Limited

Partner, Robins and Partners
H. Paulin & Co. Limited

*Member of the Audit Committee

President
Vice-President, Secretary
Vice-President, Purchasing
Treasurer

55 Milne Ave., Scarborough, Ont.
Touche Ross & Co., Toronto, Ont.
Robins and Partners, Toronto, Ont.
Canada Trust Company,
Toronto, Vancouver, Edmonton
and Winnipeg
The Toronto Stock Exchange

The Company: H. Paulin & Co. Limited was founded in 1920 by the late Mr. Harry Paulin.

The Company manufactures and distributes industrial fasteners and automotive parts, bolts, nuts, screws and fluid system components.

Major customers include the automotive industry, both original equipment and the aftermarket, agricultural, electrical and appliance industries. Company products are sold under these trademarks:

"Papco", "Pic-a-Pac", "Easy-Spot", "Tri-Lok", "Uni-Bolt", etc.

The head office and main plant are at 55 Milne Avenue, Scarborough, Ontario. Warehouse stocks are maintained in Moncton, N.B., Montreal, Que., Winnipeg, Man., Edmonton, Alta., and Vancouver, B.C.



Annual Report 1981 H. Paulin & Co. Limited

Financial Highlights	1981	1980
Sales	\$22,692,956	\$21,501,353
Net Income	\$ 823,759	\$ 992,345
*Earnings per Share	\$ 0.78	\$ 0.95
Dividend Paid	\$ 231,000	\$ 231,000
*Dividend per Share	\$ 0.22	\$ 0.22
*Shareholder's Equity per Share	\$ 9.84	\$ 9.27
Working Capital	\$ 9,620,040	\$ 8,913,850

*Based on 1,050,000 shares outstanding.

To our Shareholders

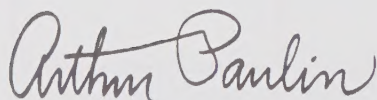
The year 1981 saw the Company again achieve record sales of \$22,693,000 an increase of 5% over 1980. Profits at \$824,000 or 78¢ per share were 17% below the \$992,000 or 95¢ per share realized last year.

Our working capital has risen by \$706,190 to \$9,620,040 and shareholders' equity is now \$9.84 per share. In an effort to conserve funds, investment in capital equipment was held to a low \$147,066. Dividends at an annual rate of 22¢ per share, amounting to \$231,000 were paid in 1981.

The Company's markets for fasteners in the automotive, appliance and farm implement areas were adversely affected by the depressed condition of the economy. Intense competition for a reduced amount of business eroded normal profit margins and we also experienced greater than normal credit losses due to an increased number of customer bankruptcies.

These are difficult times. Financing costs remain high and inflationary pressures remain strong. Your management is directing its efforts to keeping our operations profitable and to position the Company for the improvement in business conditions which should occur by the year end.

I would like to offer special thanks to our employees for their cooperative efforts and also to gratefully acknowledge the valuable support of our customers, suppliers and shareholders. On behalf of the Board of Directors, I wish to submit the financial statements for the year ended December 31, 1981.

A handwritten signature in dark ink, reading "Arthur Paulin". The signature is written in a cursive, flowing style with a large initial "A".

May 7, 1982

Operations:

The further decline in automotive vehicle production resulted in a lack of equipment utilization in our Boltmaking, Nutforming and Metal Stamping divisions. Attempts to increase factory production by displacing imported fasteners helped add volume, but at marginal rates of return.

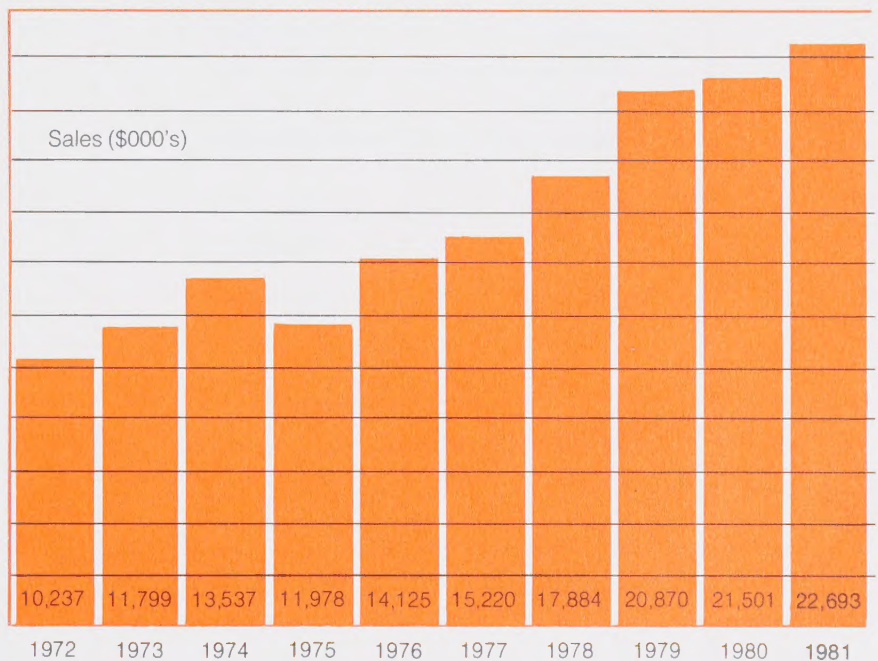
The Precision Fastener division with its short-run fast service facility continued to serve distributors and manufacturers with standard and special threaded products.

The Automatic Screw Machine division, which manufactures custom precision screw machine parts and standard tube fittings achieved satisfactory production levels in 1981.

Marketing:

A number of steps were taken to increase our share of a declining market in 1981. A completely stocked warehouse facility was opened in Moncton, N.B. to improve our service to customers in the Atlantic Provinces. This new facility combined with our warehouses in Montreal, Winnipeg, Edmonton and Vancouver gives the Company complete coverage across Canada. The addition of CAMCAR TEXTRON socket screw products on an exclusive distribution basis for Canada helped increase sales and will show greater market penetration in the future. The sale of non-ferrous and stainless steel fasteners continued its improvement over 1980.

*Premium
line of socket
screws
locking
nuts for
relationships*



Automotive aftermarket

The automotive aftermarket while not as badly affected as the vehicle manufacturing sector did experience the effects of the reduced disposable income available to the vehicle owner.

Fluid flow components

This division expanded its line of hose and tubing to complement its complete line of brass tube fittings. Increased sales in Western Canada helped to achieve record sales.

Locking fasteners

"SCOTCH-GRIP" sales continued to grow in 1981 as a result of increased acceptance in the market place as an excellent adhesive for locking and sealing fasteners.

Outlook

Many new items were added to the 'Papco' line of replacement hardware which will result in increased sales in the coming year.



H. Paulin & Co., Limited and its wholly-owned subsidiary (Incorporated under the laws of the State of New York)

Consolidated balance sheet-December 31, 1981

ASSETS	1981	1980
Current		
Accounts receivable	\$ 3,811,125	\$ 3,469,794
Inventories	9,203,786	8,936,043
Sundry assets and prepaid expenses	<u>109,194</u>	<u>49,388</u>
	13,124,105	12,455,225
Plant, equipment and leasehold improvements, at cost	4,387,378	4,275,630
Less accumulated depreciation and amortization	<u>3,189,263</u>	<u>2,911,084</u>
	1,198,115	1,364,546
	<u><u>\$14,322,220</u></u>	<u><u>\$13,819,771</u></u>

the laws of Ontario)

with comparative figures for 1980)

LIABILITIES	1981	1980
Current		
Bank indebtedness (Note 2)	\$ 1,066,500	\$ 1,349,221
Accounts payable and accrued charges	1,971,095	1,795,732
Income Taxes payable	166,225	18,177
Deferred income taxes	<u>300,245</u>	<u>378,245</u>
	3,504,065	3,541,375
Deferred income taxes	<u>486,064</u>	<u>539,064</u>
	3,990,129	4,080,439
 SHAREHOLDERS' EQUITY		
Capital Stock (Note 3)		
Authorized		
2,000,000 Class A convertible common shares without par value		
2,000,000 Class B convertible common shares without par value		
2,000 common shares without par value		
Issued		
1,050,000 Class A and B shares	1,016,188	1,016,188
Retained earnings	<u>9,315,903</u>	<u>8,723,144</u>
	<u>10,332,091</u>	<u>9,739,332</u>
	<u>\$14,322,220</u>	<u>\$13,819,771</u>

On behalf of the Board

Arthur Paulin
Director

Stanley F. Paulin
Director



H. Paulin & Co., Limited and its wholly-owned subsidiary

Consolidated statement of income and retained earnings

for the year ended December 31, 1981

(with comparative figures for 1980)

	1981	1980
Sales	<u>\$22,692,956</u>	<u>\$21,501,353</u>
Income from operations before the following charges	<u>\$ 5,730,266</u>	<u>\$ 5,841,056</u>
Selling, general and administrative expenses	3,867,383	3,514,062
Depreciation and amortization	303,359	324,090
Interest	<u>204,765</u>	<u>378,486</u>
	<u>4,375,507</u>	<u>4,216,638</u>
Income before provision for income taxes	1,354,759	1,624,418
Provision for income taxes	<u>531,000</u>	<u>632,073</u>
Net income for the year	823,759	992,345
Retained earnings at beginning of year	<u>8,723,144</u>	<u>7,961,799</u>
	9,546,903	8,954,144
Dividend	231,000	231,000
Retained earnings at end of year	<u>\$ 9,315,903</u>	<u>\$ 8,723,144</u>
Earnings per share	<u>\$ 0.78</u>	<u>\$ 0.95</u>
Dividend per share	<u>\$ 0.22</u>	<u>\$ 0.22</u>

Auditors' report

The Shareholders,
H. Paulin & Co., Limited

We have examined the consolidated balance sheet of H. Paulin & Co., Limited as at December 31, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Consolidated statement of changes in financial position

for the year ended December 31, 1981

(with comparative figures for 1980)

	1981	1980
Source of funds		
From operations		
Net income for the year	\$ 823,759	\$ 992,345
Add (deduct) items not requiring an outlay of funds		
Depreciation and amortization	303,359	324,090
Deferred income taxes	(53,000)	57,637
Gain on disposal of fixed assets	(26,291)	—
	<u>1,047,827</u>	<u>1,374,072</u>
Total from operations		
Proceeds from disposal of fixed assets	36,429	—
	<u>1,084,256</u>	<u>1,374,072</u>
Application of funds		
Acquisition of fixed assets, net	147,066	139,638
Dividend	231,000	231,000
Reduction of note payable	—	67,445
	<u>378,066</u>	<u>438,083</u>
Increase in working capital	706,190	935,989
Working capital at beginning of year	<u>8,913,850</u>	<u>7,977,861</u>
Working capital at end of year	<u>\$9,620,040</u>	<u>\$8,913,850</u>

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Toronto, Ontario
April 7, 1982

Chartered Accountants



H. Paulin & Co., Limited and its wholly-owned subsidiary

Notes to the consolidated financial statements December 31, 1981

1. Summary of significant accounting policies

a. Consolidation

The consolidated financial statements include the accounts of H. Paulin & Co., Limited and its wholly-owned subsidiary company.

b. Inventories

Inventories are valued at the lower of cost and net realizable value.

c. Plant, equipment and leasehold improvements

Expenditures for additions and major improvements to office fixtures, vehicles and leasehold improvements are capitalized while those for maintenance and repairs are expensed as incurred. The costs and accumulated depreciation applicable to assets sold or retired are removed from the respective accounts and gains or losses thereon are credited or charged to income.

Provision for depreciation is computed primarily by the straight-line method based on the estimated useful lives of the related assets. Leasehold improvements are amortized by the straight-line method over the terms of the leases.

d. Deferred income taxes

Deferred income taxes arise primarily from timing differences between financial and income tax reporting of depreciation charges.

e. Foreign currencies

Current assets and current liabilities stated in foreign currencies have been translated to Canadian funds at the rate of exchange as at December 31, 1981, and transactions during the year have been translated at the then prevailing rates.

2. Bank indebtedness

The Company has given a general assignment of its accounts receivable as security for its bank indebtedness.

1. Capital stock

- a. Class A and B shares are inter-convertible on a share for share basis and the rights of each class are identical. Both classes of shares rank equally as to dividends. No changes occurred in capital stock during the year. The issued capital stock is as follows:

	Class A	Class B	Total
Common shares	291,803	758,197	1,050,000

- b. Under a proposed stock option plan, 50,000 shares (1980—50,000 shares) were reserved as at December 31, 1981, no options have been granted under this plan.

4. Lease obligations

- a. The Company leases its Scarborough plant from its principal shareholders. The lease requires annual rental payments of \$131,000 and expires in 1989.
- b. Annual rentals payable under other long-term leases which expire at various dates up to 1989 are approximately \$150,000.

5. Segmented information

The Company operates primarily as a manufacturer and distributor of fastener products. Export sales account for approximately 4% of sales.

Ten year statistical summary

Years ending December 31, 1972-1981

Dollars in thousands except as indicated†	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Sales	10,237	11,799	13,537	11,978	14,125	15,220	17,884	20,870	21,501	22,693
Depreciation	132	173	195	239	275	267	274	289	324	303
Income Taxes	626	626	830	542	607	364	547	655	632	531
Net Income	654	757	929	669	737	627	904	1,069	992	824
Earnings per Share**†	0.62	0.72	0.885	0.637	0.702	0.597	0.861	1.02	0.95	0.78
Net Income % of Sales	6.4	6.4	6.9	5.6	5.2	4.1	5.1	5.1	4.6	3.6
Additions of Fixed Assets	216	510	539	367	206	139	198	526	149	147
Working Capital	3,784	4,114	4,754	5,297	5,972	6,544	7,247	7,978	8,914	9,620
Shareholders' Equity	4,424	5,053	5,865	6,413	6,993	7,462	8,119	8,978	9,739	10,332
Return on Equity %	17.2	16.0	17.0	10.9	11.0	8.7	11.6	12.5	10.5	8.2

*Based on 1,050,000 shares outstanding as at December 31, 1981.

Earnings per share

